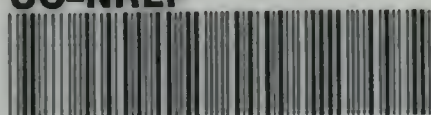


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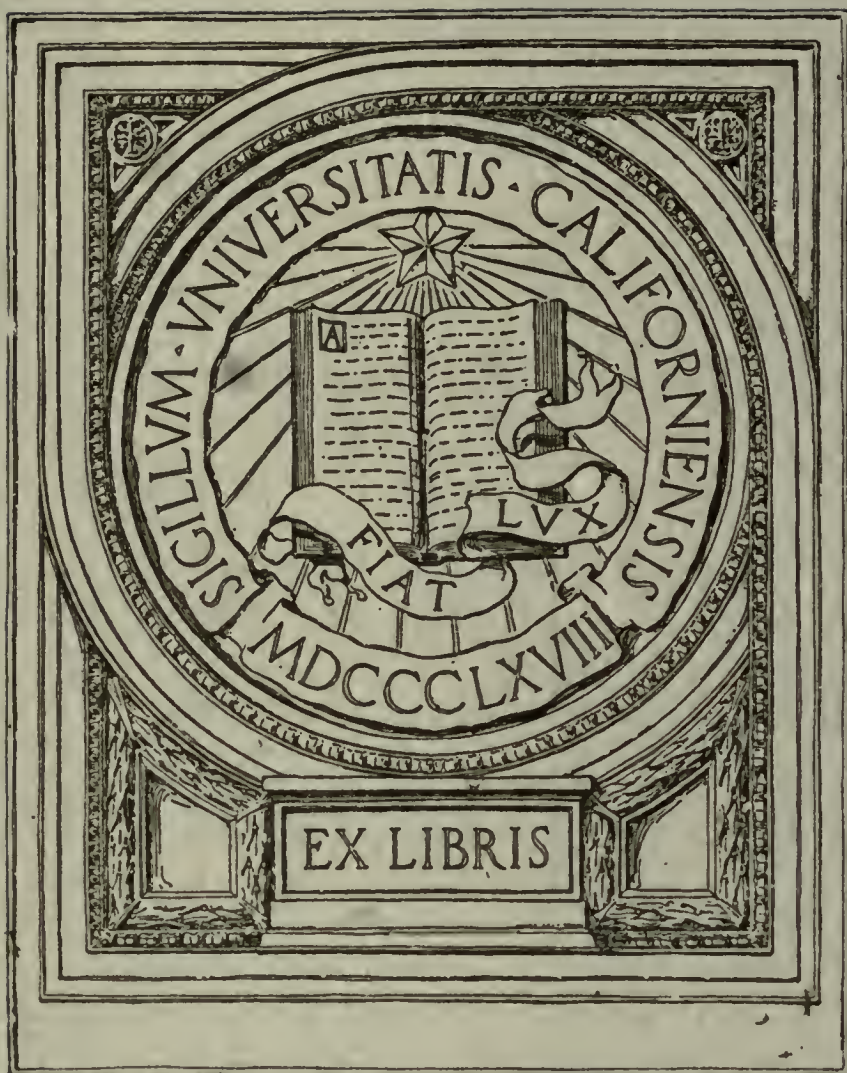
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Income Tax Administration and  
Reform.

Report by the Imperial and Local  
Finance Committee.

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PRELIMINARY.

(1) Your Committee report that they have investigated the incidence of Income Tax with the view of considering what changes or improvements, statutory or administrative, might be made in the existing methods of Assessment, with the object of removing some of the principal causes of the complaints made by taxpayers.

Scope of  
Enquiry

(2) It will be convenient if, in this report, your Committee follow as far as possible the various sections of the Report of the Departmental Committee on Income Tax, over which the late Lord Ritchie (then the Right Hon. C. T. Ritchie, M.P.) presided, and before which evidence was given on behalf of the Chamber, and which issued its report in 1905.

Report of  
Departmental  
Committee, 1905

FRAUD AND EVASION.

(3) There is probably no tax in existence which is the subject of more fraud and evasion than the Income Tax. The loss which the Revenue suffers owing to these causes is the measure of the over-tax borne by the conscientious and honest citizen. When the Income Tax Sub-Committee of the Chamber was considering the matter in 1903, a highly-placed local official was interviewed. It was suggested to him that if there were no fraud or evasion the amount of the tax might be reduced by 3d. in the £. He replied that the figure would probably be found to be

Extent of Fraud  
and Evasion.



2

nearer 6d. The following is a statement from the Chancellor of the Exchequer's speech on the Budget in 1903 :—

"I am told that the evasions are very great. An illustration is given to me by a friend of mine who is an Income Tax Commissioner. One of the most fruitful modes of evasion is to make no return of income, the income-taxpayer preferring to be assessed by the Commissioners. In this particular case my friend saw that this particular firm, of which he knew something, had adopted that plan, and that the Commissioners had assessed them, I think it was at something like £3,000 or £4,000. My friend said, 'What? £3,000 or £4,000, that is preposterous, these people are making gigantic profits.' The Commissioner replied, 'Then we will make it £5,000.' '£5,000,' my friend said, 'put it up to £50,000.' The Commissioners acted upon this advice, and they paid it. If much of this kind of thing goes on we who are honest—I am one of those individuals who cannot claim much credit for being honest, because my Income Tax is taken off for me—but, however, there can be no doubt that if this practice much prevails the just must suffer for the unjust, and there ought to be some method by which this leakage could be stopped, and probably if that were the case, we might be able to take 1d. or 2d. off, and still get the same sum from Income Tax."

Rate of Tax a  
Factor.

(4) The position is undoubtedly better now, but increased vigilance will not do everything. Independently of all other considerations, it is not unreasonable to say that a tax which is subject to so much fraud and evasion, that cannot be detected, but can only be mitigated by more equitable treatment of the taxpayers, should, except in times of emergency, be maintained at as low a figure as possible, in order to prevent injustice to the honest taxpayer.

Assessment of  
Tax at Source.

(5) The Departmental Committee reported that something like four-fifths of the income then brought into account was assessed at the source or subjected to other satisfactory methods of verification. Under Schedules A, B, C, and E, there can be practically no evasion. Under Schedule D more than one-half of the tax is collected at the source. In this connection the Departmental Committee reported as follows :—

"There are two ways in which evasion of the tax takes place. There is first fraudulent evasion. Either there is a deliberate understatement of the profits in the return, or no return at all is sent in, either with the hope of escaping notice altogether, or with the hope that, if an official assessment be made, it will be less than the real profit. If the official assess-



ment made exceeds the actual profit, an appeal can be entered. Moreover, the evidence goes to show that many people who shrink from making a false statement can yet reconcile it with their consciences to defraud their neighbours by mere passive neglect of their obligations. But besides deliberate fraud and evasion, there is much avoidance of the tax, due to ignorance, carelessness, or inability to understand and correctly fill up the forms."

(6) So far as your Committee are aware the powers of the Income Tax Authorities to enforce the making of returns are adequate. There is also a heavy penalty for false returns. The difficulty, however, is the detection of false returns. The Inland Revenue Authorities, in a memorandum submitted to the Departmental Committee, said :—

Income Tax  
Returns.

"The department is in possession of evidence to show that grossly insufficient returns, or no returns at all, are made over long periods of years with impunity, the probability of detection being slight until some event occurs to bring the true facts to light, such as the death of the taxpayer, the conversion of a private business into a Joint Stock Company, or a claim being made for compensation for disturbance based upon the profits."

(7) In this way some of the leakage due to fraud and evasion is stopped, but it must not be forgotten that additional private businesses are continually being established by traders, commission agents, and professional men, and that in many of these cases it is very difficult to check the accuracy of a return. The authorities are therefore dependent upon the conscientiousness of the taxpayer, who is only too frequently influenced by the amount of the tax. If the poundage is normally low the incentive to evasion is correspondingly slight; but if the amount of the tax is normally high, then the incentive to evasion is greatly increased, and the honest taxpayer has to bear the burden.

Accuracy of  
Returns

## INCOME TAX RETURNS.

(8) The Departmental Committee, after suggesting certain reforms for preventing fraud and evasion, pointed out that every facility ought to be given to the taxpayer to comply with the obligation thrown upon him. The report continues :—

Forms for  
Income Tax  
Returns.

"We have drawn the attention of the Inland Revenue Department to the fact that the forms should be as short and



clear as possible, and couched in simple and intelligible language, and we are glad to say that the department have already taken the matter in hand."

Whatever efforts may have been made by the Inland Revenue Department to carry out this suggestion they have signally failed. It may safely be said that the forms of return are neither short nor clear, nor are they simple and intelligible. On the contrary, they are lengthy, involved, and complicated to a degree, from which even the copious notes and instructions cannot extricate them. Indeed, the latter must in many cases add to the confusion of the taxpayer who is honestly desirous of making an accurate return.

Partnership  
Returns,

(9) There is a serious anomaly in connection with the Income Tax accounts of a Partnership business. Each partner requiring to be assessed on earned income is obliged to make a separate return; a collective return must also be made for the business, and, finally, only one assessment is made, viz., on the business, and a difficulty arises as to the actual amount due from each partner, especially as partners paying interest privately on loans have a part of such assessment at the higher rate.

Production of  
Balance Sheets.

(10) In July, 1908, the Chamber made a complaint to the Board of Inland Revenue with reference to the requirements of the Surveyor of Taxes in regard to Returns. A letter was also addressed to the principal Chambers of Commerce of the country, most of whom made similar representations. The specific complaint was that frequently a trader, after sending in his Returns and a copy of his Trading Account, as required by law, was requested to furnish a copy of his Balance Sheet. The trader was and is practically helpless in the matter, because whilst no legal power is vested in the Inland Revenue Authorities to require the production of Balance Sheets, indirectly they possess almost powers of compulsion, seeing that if the trader neglects or refuses to comply with the request he may be compelled to appear before the Commissioners and thus be put to inconvenience and expense, and, if he still refuses, may be assessed at the amount which is the cause of the appeal. In the case of Public Companies, the Balance Sheets of which are published, there is perhaps no real objection on the ground of privacy to their formal production; but in the case of private companies and firms there is serious objection, not only on the ground that the Balance Sheets contain information that the Income Tax Authorities do not require, but also because they often contain private and family information, which it is not desirable should be disclosed to third parties. Furthermore,



they are of little real value to the Surveyor, because the figure of Plant and Machinery Account on which depreciation is allowed is seldom (owing to insufficient depreciation allowance by the Inland Revenue Authorities) the amount on which depreciation is to be calculated for Income Tax purposes. Whilst in theory Income Tax is based upon income it is really levied upon something much larger than income, for many perfectly proper charges are not allowed to be made in the Trading Accounts for Income Tax purposes, and furthermore, as stated above, a sufficient allowance for depreciation is often not allowed, especially as it may only be calculated on the diminishing value. Therefore, for Income Tax purposes a specially adjusted statement of Plant and Machinery has to be prepared, which will not, in many cases, agree with figures on the Balance Sheet. The result is that the Surveyors of Taxes have been unable to compare them with the Return, and have sent in supplementary lists of questions. It must, of course, be understood that copies of Trading Accounts are generally demanded by the Surveyors of Taxes, and are supplied by taxpayers; but, notwithstanding this, requests are sometimes received for voluminous details of items contained in the accounts.

(11) Many difficulties now experienced would be avoided if the Income Tax were based on the actual income, and the forms of return were simplified, but so long as the law remains unaltered it is contended that the figures in a statement of accounts, when certified by a firm of Accountants of repute, should be accepted by the Surveyor of Taxes, reserving to him the power to raise queries only on points of method of treatment of certain items and the question of allowance of depreciation.

Certificate of  
Accountant.

## DEPRECIATION OF PLANT AND MACHINERY.

(12) Next to the amount of the tax there is no question of greater importance to the manufacturer than that of the allowance for depreciation and obsolescence of machinery and plant. In May, 1903, the Council adopted a report of the Income Tax Committee, in which these questions were referred to as "most important to the commercial and manufacturing world. The nature of manufacturing businesses," the report continued, "has completely changed during recent years. Increasing competition has introduced new elements. In past times apparatus and machinery were kept in use till they dropped in pieces, and a moderate de-

Allowances for  
Depreciation and  
Obsolescence.



preciation out of profits met the case ; but to-day the best practice often leads the wise manufacturer to consider processes and machinery obsolete after only a few years' use. In every way the wasting of assets goes on at a much faster rate than formerly. In this direction the present system of Income Tax Assessment is out of touch with the modern spirit, and different modes of procedure are adopted by different Commissioners." The questions of depreciation and obsolescence are entirely distinct, and will be dealt with separately.

Allowances  
Insufficient.

(13) In 1908, the Chamber joined in a petition, prepared by the Income Tax Reduction League for presentation to the Chancellor of the Exchequer, in which it was stated that the present method of assessing Income Tax was inequitable and inexpedient, especially with regard to the insufficiency of the allowance for depreciation of wasting assets, and urged that more just and scientific methods should be employed. The petition was presented personally to Mr. Lloyd George by a deputation headed by Lord Avebury, upon which your Chamber was represented, and one of the official speakers, in supporting the petition. said, "We submit that in assessing profits to Income Tax, allowance should be made for depreciation of all inherently wasting assets, where such depreciation arises out of and is necessarily incidental to, the earning of such profits, and that the amount of such depreciation written off in the books of account recording such profits be accepted as the measure of the actual depreciation in the absence of evidence proving that such amounts are excessive."

Depreciation of  
Machinery and  
Plant.

(14) By Section 26 (4) of The Finance Act, 1907, the expression "deduction for wear and tear" is defined as the deduction allowed "as representing the diminished value by reason of wear and tear during the year of machinery or plant used for the purposes of any trade, manufacture, adventure, or concern." Much complaint is made as to the amount of deductions allowed, especially in view of the fact that these are allowed only on the diminishing value, and irrespective of whether machinery is used occasionally, every day, or even night and day except Sundays. An annual allowance of 5 per cent. for depreciation on the full original value of the machinery and plant would enable the capital to be written off in 20 years, but under the section above cited, if the rate of depreciation is 5 per cent. it takes 45 years to write it down to say one-tenth of original cost (which is frequently inadequate.) If the allowance is  $7\frac{1}{2}$  per cent. the period is 30 years ; if 10 per cent. it is about 22 years ; if  $12\frac{1}{2}$  per



cent. it is 17 years, if 15 per cent. it is 14 years, if 20 per cent. it is a little over 10 years. It is obvious, therefore, under existing industrial conditions that much hardship and even injustice may be inflicted upon the manufacturer, the capital value of whose machinery wastes very quickly. The allowances made by Income Tax Commissioners vary from  $2\frac{1}{2}$  per cent. on the diminishing value upwards, but it is very rarely they exceed 10 per cent.

(15) It is important to note that depreciation refers only to machinery and plant. There are, however, other assets which diminish in value, such as tools, implements, utensils, furniture, fittings, fixtures, freehold and leasehold buildings, patents, and many others. It is true that the amounts expended in repairs and renewals are allowed as deductions, but in the case of buildings and leases, like machinery and plant, a time comes when, notwithstanding all repairs and renewals, the assets must be entirely replaced. The value of a Patent also expires in a fixed number of years. Obviously, therefore, it is only reasonable that the question of depreciation of all assets liable to it should be taken into account and proper allowances made.

Other Wasting Assets.

The present anomalous condition of the law is specially apparent in the case of some undertakings, *e.g.*, collieries and other mines where the assets are of an inherently wasting character.

The position when the mines are worked out is that no depreciation has been allowed in regard to the heavy capital expenditure incurred in sinking the shafts, constructing tunnels and main roads, erecting buildings, etc., and no deduction is allowed from the annual income to enable the proprietors to restore the surface, fill up the pits and the like, on a colliery being worked out. This is a further instance of Tax being paid upon capital.

Similar circumstances exist in regard to stone and slate quarries, sandbeds, lime pits, clay holes, etc.

The unfairness of the present method of treatment of wasting assets is dealt with in the following extract from a pamphlet published in 1904 by the Hon. Herbert C. Gibbs :—

“Two men, ‘A’ and ‘B,’ own £100 each, Income Tax being one shilling in the pound. ‘A’ invests his £100 in Consols, and receives, say, £2 10s. per annum, and pays the Government 2s. 6d. ‘B’ invests his £100 in a wasting security which pays 5



per cent. dividend and writes down its capital by another 5 per cent. out of revenue. Now observe the way in which the Legislature discourages 'B's' enterprise and prudence. The Government makes 'B' pay 5s. on his dividend, plus 5s. on the amount of capital written off, and 1s. in the pound thereafter on the interest of that depreciation fund which is roughly equal to another immediate payment of 5s. on the capital written off. Thus 'B', who by the hypothesis has only the same amount of property as 'A,' viz. : £100, and should in justice pay an equal amount to Government for its protection, is made to pay six times as much as 'A.'"

From what has been said, it will be seen that it is only in very rare and exceptional cases that the prudent business man is able to secure sufficient allowances for depreciation, and that in the large majority of cases he is charged Income Tax on the considerable sums of money which he is obliged to devote out of revenue to the purpose of maintaining the capital which has been sunk in wasting assets. The present practice is obviously wrong and unjust, for it results not only in the taxing of income, but also in the taxing of capital, and is therefore contrary to the spirit and intention of the law. If, under the strict letter of the law, the Inland Revenue Authorities are prevented from making adequate allowances, your Committee are of opinion that the law should be amended, so that the serious and real grievances now existing might be removed.

## OBSOLESCENCE OF MACHINERY.

Obsolescence of  
Machinery and  
Plant.

(16) At the present day when machinery and plant, owing to the progress of science and invention, quickly become obsolete, and have to be scrapped and replaced by absolutely modern and up-to-date machinery, the question of allowance for obsolescence becomes of vital importance. So long ago as 1897 the Association of Chambers of Commerce sent a Memorial to the then Chancellor of the Exchequer, and his reply was as follows:—

" Treasury Chambers,  
" Whitehall, S.W.,  
" 28th May, 1897.

" Dear Sir—

" The Chancellor of the Exchequer has had under his consideration the Memorial of the Association of the Chambers of Commerce of the United Kingdom, which you sent at the beginning of April.

" The chief points raised in the Memorial are as follows:—



"1. That the allowances in respect of repairs and depreciation of machinery are insufficient, and the methods of calculating such depreciation are unsatisfactory.

"2 That no allowance is made for the cost of replacing machinery which has become obsolete.

"As to the first point, I am to say that, as the law now stands, deductions are allowed both in respect of expenditure incurred in repairs or alterations of machinery, according to an average of three years preceding the year of assessment, and also in respect of the diminished value of machinery by reason of wear and tear during the year. The allowance of these deductions is in the hands of the district or special commissioners, as the case may be, and they have to decide in each case as it arises the adequacy of the deductions allowed. As to the second point, I am to say that the Board of Inland Revenue have given instructions to their Surveyor at Leicester, which is particularly referred to in the Memorial, that, where a claim is made in respect of the introduction of more modern machinery in a factory, no objection is to be taken to the allowance, as a deduction from the assessable profits of the year, of so much of the cost of replacement as is represented by the existing value of the machinery replaced. Any excess in the cost of the new machinery over the actual present value of the old, is an addition to the capital of the business, and cannot properly be regarded as a charge upon revenue for the purposes of Income Tax Assessment.

"I am to add that similar instructions will be given to Surveyors in other districts when this question arises there.

I am, Sir,

Your obedient servant,  
W. A. MOUNT."

"To the Secretary,

"Association of Chambers of Commerce."

(17) This reply was of the utmost importance, not because it offered a liberal allowance to the manufacturer, but because it offered something more than the strict letter of the law would appear to allow. It is, however to be regretted that the instructions said to have been given to the Surveyors are by no means always carried out. The action of the Inland Revenue in the matter cannot be better described than it is in the Report of the Departmental Committee of 1905 which states :—

Concession not  
Adequately  
Administered.

"Finally, the concession made by the Act of 1878 in respect of wear and tear of Plant and Machinery was carried somewhat further by administrative action in 1897, when in a letter addressed to the Association of Chambers of Commerce by order of the Chancellor of the Exchequer, and printed in Appendix No. V., it was laid down that 'that where a claim is made in respect of the introduction of more modern machinery into a factory, no objection (*i.e.*, on the part of the Inland Revenue) is to be taken to the allowance as a deduction from the assessable profits of the year, of so much of the cost of replacement as is represented by the existing value of the machinery replaced."



"We think that the policy indicated in that letter sufficiently meets the reasonable claims of machinery users in respect of the replacement of obsolete machinery. But it appears that, although the letter was published at the time, no very formal steps have been taken either by the Association of Chambers of Commerce or by the Inland Revenue Authorities to keep the concession which it offered before the minds of manufacturers or of the several bodies of General Commissioners, and in consequence a large amount of ignorance seems to prevail in regard to it. This is true also as regards the subject as a whole, and we think that effective steps should be taken both to make the law itself clear, and to give the public reasonable facilities for ascertaining their rights and obligations. We are, indeed, of opinion that a want of knowledge of the law and of authorised practice, and the want of uniformity thereby engendered, are the matters that principally call for remedy in this branch of our inquiry, and apart from them we do not consider that any substantial change is called for beyond that already recommended as regards depreciation of premises."

A Real and  
Legitimate  
Grievance.

(18) Extraordinary as it may seem, it appears that, notwithstanding the pointed character of the Report referred to, the Inland Revenue have taken no public steps to remove a real and legitimate grievance. The late Mr. T. Hallett Fry, in his work on Income Tax, said, after quoting the paragraph of the Report above cited:—

"It is somewhat remarkable that Dowell's Income Tax—which issues from the Inland Revenue Department—should make no mention whatever of so important a subject as the right of the taxpayer to an obsolescence allowance. This allowance is one of the most important of all those to which assessed persons may become entitled. Inasmuch as Dowell's book is in general use amongst lawyers, it is evident that the Department must benefit greatly by its neglect. This Revenue benefit is, obviously, the exact measure of the taxpayers' detriment."

Complaint  
against Revenue  
Authorities.

(19) In view of these statements it is clear that the manufacturing community has a real complaint against the Inland Revenue Authorities in that the latter have conspicuously failed to assist the trader to obtain what the Treasury have deliberately granted to him.

## PREPARATION OF ACCOUNTS FOR ASSESSMENTS.

Income Tax  
Accounts.

(20) In an address on "Income Tax Assessments," delivered by the Chairman of your Committee before the Birmingham and District Society of Chartered Secretaries, in October, 1909, Mr. H. Lakin-Smith said with regard to the preparation of accounts for assessments under Schedule D:—



"For the purpose of the preparation of the Assessment, the accounts of the business for the three years prior to the commencement of the year of assessment, on April 5th, must be taken. That is to say, if, for example, the year of the business closes on December 31st, and the assessment was for the year 1909-10, you would take the three years to December 31st, 1908; or, for a further example, if the accounts are annually closed on June 30th, and you still require the assessment for the current year, you would take the accounts for the three years ended June 30th, 1908.

"Now, having prepared these trading accounts, it is very necessary to remember that the average profit earned in these three years from the point of view of the owners of the business is not at all the figure on which the Government is prepared to accept Income Tax, for many rules and regulations come into force which alter this figure, and I must now go carefully into these, so that you will see that, after preparing the accounts on the usual lines, you must necessarily make many adjustments before they are correct for Income Tax purposes.

"I have just mentioned that the profit must be the average of the three previous years. There are certain exceptions to this, for instance, mines, waterworks, quarries, &c. . . . but otherwise it is an absolute rule, except that where a trade has been set up or commenced within three years, then the figures to be taken must be the average for the period since commencing the business, or, if, again, the business was commenced in the year of assessment the profits are to be estimated according to the best of your knowledge, and the grounds on which the figure has been estimated must be brought before the Commissioners.

"Now in computing the profit, deductions are allowed for the repairs of premises occupied for the purpose of the trade, or for the supply or repair of implements, utensils or articles employed but not exceeding the sum usually expended for such purpose according to the average of the three years preceding. Roughly speaking, this means repairs to premises as long as they are reasonable, and repairs and renewals of implements are allowed to be charged. Bad and doubtful debts may be deducted, but with regard to bad debts, those which are proved to be bad, and with regard to doubtful debts, only those portions which are individually known to be bad at the time of making up the accounts. The Inland Revenue Authorities will not allow you to include any general reserve for doubtful debts in the accounts for Income Tax purposes. It is correct in preparing the accounts for Income Tax to substitute for the amount charged in the ordinary accounts the amount of bad and doubtful debts actually written off in the books during the particular year. The rent of premises may also be charged, provided they are used solely for the purposes of the business. Then again the annual value of any premises occupied by the owner solely for the purposes of the business, and not as a place of residence, may be deducted from the assessment under Schedule D, according to the amount on which the tax has been paid under Schedule A. As a matter of fixed law this amount should be deducted from each of the three Annual Accounts. Then again, a portion not exceeding two-thirds may be deducted where the premises occupied by the owner are used partly as dwelling house and partly for purposes of business.



“Again, according to the Inland Revenue instructions, all other disbursements and expenses properly and exclusively used in connection with the trade may be charged.

“Many discussions ensue with the Surveyors of Taxes and Commissioners as to whether certain items are proper expenses to be charged or not; but I think it well to instance a few:—

(a) The running expenses of a motor-car, so far as used by a doctor or auctioneer for purpose of his business are allowed.

(b) Where, for the purpose of the business, advertising, which has been expended, is carried forward to a future year on the Balance Sheet, yet the whole of the advertising spent during the year is clearly chargeable for purposes of Income Tax, whether it is carried forward in the accounts of the business or not.

(c) Items expended in the improvement of premises may not be charged.

(d) Loss of stock through fire is chargeable, but of course, when insured the amount charged must only be the balance lost over and above the amount recoverable under the insurance.

(e) A loss of a factory or part of a building through fire is not chargeable, as this is deemed to be a loss of capital, and not a trading loss. Here again, however, if the Fire Insurance has been properly effected there should be no loss of capital, and all ordinary insurance premiums against fire, &c., both for Buildings and Stock are allowed to be charged for Income Tax purposes.

(f) Charitable subscriptions are not allowed as a charge, but it is now understood that payments to Hospitals, Infirmarys, &c., which are really for the benefit of the workpeople, and the business therefore directly benefits may be charged.

(g) Renewals of furniture, implements, &c., may be charged, but depreciation may not; but these must not exceed the average amount expended in the three years preceding.

(h) Of course Income Tax paid is not chargeable as a deduction under whatever schedule it may be paid.

(i) Ordinary legal and accountancy charges are allowed, but all of a special nature, such as in connection with matters as the formation of a company, or transfers of properties, &c., would not be so.

(j) Bank interest and charges may be charged in the accounts as the Banks return for Income Tax in respect of these charges.

(k) Further, goodwill written off may, of course, not be charged.

(l) An allowance may be claimed for depreciation of plant and machinery, and also for life insurance (up to one-sixth of total income, but abatements may not be affected by this allowance). . . . . (m) Where loss has occurred through fraud of an employee this (less any amount received from an Insurance Company) is allowed to be charged.

(n) The written down value of machinery thrown out is allowed as a charge, and this would include gas fittings replaced by electric light. No deductions are allowed in the Trading Account for any interest on capital or loans for any annual interest or annuity or any annual sum payable out of the profit for Royalties or ground rent (as the tax on these should be deducted from the amount paid), any sums paid as salaries to partners or for drawings of partners, any sums invested or employed as Capital in the trade or business or on account of Capital withdrawn therefrom, any sums expended in the improvement of premises or written off as depreciation of land, buildings, or leases, or any loss not in connection with or arising out of the trade, any expenses for maintenance of the



persons assessable, their families or private establishments, any loss recoverable under insurance or contract of indemnity, any sums paid as income tax on profits or gains, or on the annual value of trade premises, any premium for life insurance, or wear and tear of machinery or plant, or the compensation charge payable by Brewers."

(21) The expression "Income Tax" implies a tax on income and nothing else. But the Income Tax as at present levied represents a tax not only on income but on something more than real income. The trading accounts of practically all firms and companies are kept on a basis which reveals the actual amount of distributable profit, or of loss sustained. The accounts of public companies are invariably audited by a professional Accountant, and where a profit has been made this is disclosed therein. When, however, the question of Income Tax accounts is discussed, the Accountant has to advise the company that certain amounts which in the interests of the business it has been deemed prudent or necessary to allow or write off must be disregarded, and the result is that tax has to be paid on a larger sum than any company would really be justified in shewing as profit. Thus the prudent company is penalised. The profits of a company may be said to consist of two parts— that which is distributed in dividends and that which is carried forward. It is generally admitted that Income Tax must fairly be paid on both of these, but it is a source of grievance that the tax should be levied on some amount which is larger than the total of both.

Basis of  
Assessment.

## THE THREE YEARS' AVERAGE SYSTEM.

(22) In the address by the Chairman of your Committee, previously referred to, Mr. H. Lakin-Smith said :—

"The return for Income Tax is, for most businesses, as I have said, based upon the average profits for the three previous years (though probably not quite one-half of the whole tax is levied on this basis at the present time), and it has been suggested that it would be much better if it were based upon the previous year's result only.

Three Years'  
Average System.

"The Departmental Committee's opinions on this point are interesting, as they suggest the one year's basis for professional men and the three year's basis for manufacturers and traders. I have gone into this question very carefully and compared the results obtained by different methods of Assessment. When a business shows a gradually increasing profit, it gains by the present method of Assessment; but a business with a decreasing profit, or which having shewn losses for years, commences to earn a small profit, loses.



"Now from what I have just said you will realise that the Inland Revenue obtains more than the correct tax in some cases and less in others. Why should the Inland Revenue lose or gain? And yet the proposal of assessing the tax on a one year's basis, and allowing deduction for either the previous one or two year's losses, may, in certain circumstances, turn out even a larger gain. But neither the present method nor either of these proposals is fair.

*"The only accurate and fair way would be that tax should be paid upon the profits of each previous year only, and that all losses, of however many years' standing, should be deductible from subsequent profits before the tax becomes payable. In this way tax would be paid upon actual profits only.*

"This would be a perfectly simple arrangement to carry through, and, if adopted, the return annually made by the taxpayer for the purpose of assessment would contain the actual trading result of the previous year only.

"It may be argued that this method would make it difficult to forecast in the Budget the annual yield of the tax. I do not think that this would be the case, and certainly justice to the taxpayer is of more importance. Further, the annual yield of the tax upon this new basis would be useful statistically in showing the condition of trade generally."

Advantages and  
Disadvantages  
of Three Years'  
Average System

(23) In the report of the Departmental Committee on Income Tax the question is dealt with at considerable length, and the following summary will show the objections to and advantages of the system respectively as they presented themselves to the members of the Committee.

It has been contended (1) that when profits are rising, the tax taken on average profits necessarily lags behind the growth of the wealth of the country ; (2) that under this system there is more likelihood of the tax or a portion of it, being irrecoverable than if the tax were taken on the profits of the previous year ; (3) that the average system offers a special opportunity and temptation to obscure the figures of profit through the blending into an average of accounts for three years, and renders legal proof of evasion more difficult ; (4) that it increases the complexity of the accounts which have to be dealt with, especially on appeals ; (5) it is also contended that under the average system, when his profits are diminishing, the trader is, each year, paying duty on more than the profits then earned, and this at a time when he can least well afford it ; (6) while, on the other hand, when profits are increasing, the trader is not at once called upon for the full tax on his increased profits, and (7) that as a result it often appears to the taxpayer a hardship that when profits or income are, and have been, falling off, he should be called upon to pay Income



Tax (and perhaps an increased poundage of Income Tax) on the profits of bygone and more prosperous years ; (8) on the one year system he would be called upon to pay on his profits within a few months of the making of the profits, and the demand for payment of the tax would be less likely to arouse any sense of injustice or hardship. ; further, it is alleged (9) that for most traders and for all professional men the ascertainment of the one year's profit or income would be simpler and less troublesome, than the ascertainment of the average of three years. In the case of an appeal against the original assessment, the trouble and expense would be considerably less and the likelihood of successful proof would be considerably greater, when only a single year's and not three years' accounts had to be produced and explained. Legitimate appeals against over-assessment, or, on occasion of an actual loss, ought to be rendered as easy and as simple as possible. Finally, it is urged (10) that as the Income Tax is, in theory, payable on the actual yearly income there can be no hardship, from the point of view of the income taxpayer, in requiring him to pay in each year on the actual realised profit of the preceding year.

On the other hand, it has been argued in the report of the Departmental Committee that the average system possesses considerable advantages over the proposed alternative plan of the Departmental Committee. It is contended (a) that the three years' average system enables the tax (especially when the poundage is at a high figure) to be more easily paid than if the amount to be paid fluctuated largely every year. (b) That if the assessments were based on the preceding year, the actual payment of tax would still be made at least a year after the profit had been earned ; and in the case of a fluctuating business it would differ even more than at present from the actual profits of the year in which the payment was made. Further (c), that accounts for one year would afford little information as to the probable annual profits of a fluctuating business, and be little guide as to the sum assessable in any future year. (d) That the fact that three years' accounts are required from the taxpayer probably tends to greater accuracy in the statements rendered. It is also argued (e) that many private traders would greatly object to have to disclose their exact position each year, and to return, perhaps, large profits one year, a serious loss another. At present the fluctuations under the three years' average are not disclosed. Further (f), this information would become known in their offices and outside ; and in some



cases it is alleged the credit and standing of a firm might be seriously affected.\*

(g) A further objection made to the change is that the comparative absence of fluctuation in a large portion of the revenue derived from the Income Tax in consequence of the three years' average system, enables the Chancellor of the Exchequer to make a closer estimate of the yield of the tax. (h) Further, when trade is falling off and other branches of revenue are less productive, the three years' average system maintains the produce of the Income Tax at a higher figure than it would yield if based on the profits of the previous year. Thus a sort of reserve of income is formed on which the State can draw at a time when profits and trade are inelastic. In addition to this, it is argued (i) that the transition period would involve some temporary loss to the Exchequer, for in certain cases, the taxpayer would be able to show that he was being called upon to pay larger sums than he otherwise would have had to pay, and would claim some pecuniary concession.

#### The Departmental Committee's Report continues :—

"On the other hand, as regards these two points, it may be noted that not quite half of the whole Income Tax is levied on the three years' system, and that some portion of the income so levied—the income of professional men, employees, &c.—is not greatly subject to fluctuations, while the profits derived from many of the trades themselves fluctuate very little year by year. The closeness of the annual estimate would not, therefore, be greatly disturbed. As regards the necessity of a rebate to those taxpayers who would momentarily suffer from the change when first introduced, it may be pointed out that any temporary sacrifice of revenue, though inconvenient, would possibly be more than compensated by the permanent increase in the yield of the tax.

"We have thus summed up the principal arguments for and against the maintenance of the three years' average system, and we think it probable that if we were starting 'de novo' the system of levying the tax on the profits of the previous year would be considered preferable to the present system.

"But we have to take into account the fact that the three years' average system has been in force since the reimposition of the Income Tax 60 years ago, and has given rise to but little complaint, and that any change would necessarily lead to some

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*\*As regards the question of secrecy it may be again mentioned that any firm or person can always elect to be assessed not by the General (Local) Commissioners but by the Special (Somerset House) Commissioners.*



temporary confusion and disturbance, and might be unpopular. Such a change could not be attempted without public opinion, and especially the support of business men behind it, and so far the question seems never to have been seriously considered by those principally affected. The Report of this Committee may, by calling attention to the matter, lead to public consideration of the question; and if the verdict were favourable, we think the change would on the whole be advantageous.

“The position of professional men and of employees is somewhat different to that of traders, &c., and the argument in favour of the average system applied in the case of the latter has not the same force in the case of the former. The employee is in receipt of a definite yearly salary, and to most professional men (who do not keep books like a business firm) it would probably be an advantage because simpler and less troublesome to return the profit of one year rather than the average of three. It would save appeals; and if an appeal were made it would involve less troublesome proof.”

(24) In favour of the three years' average system—the principal arguments which can be put forward are that it enables the Chancellor of the Exchequer to make a closer estimate of the yield of the tax, and that when trade is falling off and the other branches of imperial revenue are less productive a sort of reserve is formed on which the State can draw at a time when profits and trade are inelastic. In the opinion of your Committee, however, whatever else these arguments may prove they show clearly that the amount of the advantage secured by the State is the measure of the detriment sustained by one section of the community—and that not the least deserving.

Objection to  
Three Years'  
Average System

(25) On the subject of the three years' average system one of the most important statements by the Departmental Committee is this, viz. :—“We think it probable that if we were starting ‘de novo’ the system of levying the tax on the profits of the previous year would be considered preferable to the present system.” In the opinion of your Committee no more severe indictment of the present system could be advanced.

Departmental  
Committees'  
View.

Your Committee have no doubt if the one year's system were adopted that the work of the Inland Revenue would be simplified, and the cost of collection reduced, and that there would be greater accuracy in the returns.

## CO-OPERATIVE SOCIETIES AND INCOME TAX

(26) At the Council meeting held in November, 1909, the following report of the Retail Trades Section of the Chamber was adopted, viz. :—

Co-operative  
Societies and  
Income Tax.



"The Section have unanimously passed the following resolution :—

"That the Retail Trades Section is of opinion that Co-operative Societies should be assessed for Income Tax upon the same basis as other traders with whom they enter into competition, and recommends the Council to make representations to the Government with a view to the removal of the injustice caused by the present discrimination between co-operative and other trading concerns."

"Co-operative Societies registered under the Industrial and Provident Societies Acts are as a matter of administrative convenience exempted from direct assessment to Income Tax. The Section is of opinion that if the Income Tax is to be just and equitable in its incidence, it is essential that no discrimination should be made between one trading concern and another, merely on the score of administrative convenience. If the profits now earned by members of Co-operative Societies were received from any other corporation, they would be paid less Income Tax, and if the recipient were entitled to exemption, he would have to make a claim for refund. It is not sufficient in the opinion of the Section, to say that the majority of co-operators earn an income which falls below the Income Tax limit, because it follows that large numbers of people whose dividends now escape the tax ought to be assessed, and no question of administrative convenience should be allowed to interfere with their assessment. The amount of business transacted by Co-operative Societies is enormous, the total sales in 1907 amounting to £109,000,000, and the share capital to £32,751,952. Furthermore, it must not be forgotten that in addition to the work of distribution Co-operative Societies, through the Co-operative Wholesale Society, are bankers, steamship owners, manufacturers, and merchants, and that the latter society employs over 14,000 hands. It is obvious therefore, that large amounts of capital must be invested in this huge concern which, were they invested in other concerns, would be brought within the Income Tax Acts. At their last annual meeting the Association of Chambers of Commerce passed a Resolution in favour of the direct assessment of Co-operative Societies to Income Tax, and the Section therefore confidently submit their resolution as set out above for adoption by the Council."

Treasury  
Memorandum

(27) A copy of the above Report was sent to the Chancellor of the Exchequer, and in reply a memorandum was received, which contained a general statement of the law, as follows :—

#### "INDUSTRIAL AND PROVIDENT SOCIETIES.

"Industrial and Provident Societies enjoy no real exemption from Income Tax.

"It is true that societies registered under the Industrial and Provident Societies Acts are, by statute, under certain conditions, exempt from direct assessment to Income Tax under Schedules C and D, but this is a mere matter of administrative convenience. The exemption is not an exemption from Income Tax on profits. It is merely an exemption from the liability which the Income Tax Acts impose on companies, &c., to account



for the Income Tax on behalf of their shareholders. It is, in fact, merely a variation in the machinery of collection, not in the principle of the tax. It is expressly stated in the law that the exemption does not relieve a single member of such a society from any assessment to which he would otherwise be liable.

“This will appear from the following explanation:—The governing principle of Income Tax law is that each individual whose total income from all sources is over £160 a year is liable to Income Tax; if it does not exceed £160 he is exempt. This principle is applied both in the case of ordinary traders (individuals, trading partnerships, or companies) on the one hand and co-operative societies, subject to certain conditions, on the other, but for the convenience of the collecting authority the principle is applied in different ways in the two cases.

“*Ordinary Traders.*—These are, as a general rule, assessed directly to Income Tax, but any member of a partnership or company, whose total income from all sources does not exceed £160, is, on establishing his claim to the satisfaction of the District Commissioner of Taxes, repaid the Income Tax on his share of the profits.

“*Co-operative Societies.*—It is important to bear in mind that in principle it is not the society that is ultimately taxed as a unit, but the individual members composing it. Whatever the aggregate profits may be, every member whose total income from all sources does not exceed £160 a year is entitled, like the ordinary trader, to be relieved from payment of Income Tax, on his share of the profits; and every member whose total income exceeds £160 is, like the ordinary trader, chargeable to that tax. Thus, even though the aggregate profits of such a society amounted to £10,000 a year, yet if it consisted entirely of members whose individual incomes from all sources did not exceed £160 none of the members would ultimately bear the tax.

“It makes no real difference whether a co-operative society is assessed directly to Income Tax or not; the distinction simply is, that if the society is assessed directly, Income Tax is deducted from each member's share of the profits before he receives it, but he can claim repayment afterwards if he is not individually liable; if the society is not assessed directly, each member receives his share in full without any such deduction; but he has to pay Income Tax upon it afterwards if he is individually liable.

“It is evident that a co-operative society may be so composed that it would be highly inconvenient to assess its profits directly to Income Tax. If the great majority of its members have incomes of £160 or less a year it would involve much trouble and expense to assess it directly, as the tax would subsequently have to be repaid to a large number (in some cases all) of the individual members. In dealing with such a society it is obviously more convenient not to directly assess the society at all, but to assess any individual member who may be liable. The following are the conditions under which Co-operative Societies registered\* under the Industrial and Provident Societies Acts are exempted from direct assessment.

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\*No member of a registered society may have more than £200 in the society. Most of the members are persons of small incomes.



“The law provides that a society so registered shall not be chargeable to Income Tax under Schedules C and D, unless it sells to persons not members thereof, and the number of shares of the society is limited either by its rules or practice.”

“The Inland Revenue Authorities interpret this provision as meaning that both conditions are necessary to take away the exemption.

“In other words to escape direct assessment a co-operative society must satisfy two requirements :—

“(1) It must be registered under the Industrial and Provident Societies Acts.

“(2) If it sells to non-members, the number of its shares must not be limited either by its rules or practice.

“For instance the Civil Service Supply Association, Limited, though registered under the Industrial and Provident Societies Act, is directly assessed. This is because, while it sells to non-members, the number of its shares is limited.”

Co-operative  
Societies' Profits  
should be  
assessed.

(28) In the opinion of your Committee the above statement affords no answer to the reasons given by the Retail Trades Section of the Chamber in the Report above quoted for the assessment of the profits of Co-operative Societies to Income Tax upon the same basis as the profits of other trading concerns are assessed.

## RATE OF DISCOUNT ON PAYMENT OF TAX

Discount for  
Prompt Pay-  
ment of Tax.

(29) The Income Tax Act, 1842 (sect. 141) authorised a discount of 4 per cent per annum on prepayment of the tax ; but by the Revenue Act, 1889, this was reduced to  $2\frac{1}{2}$  per cent. per annum. Seeing that Income Tax becomes due on the first of January, it follows that any person prepaying the amount of his assessment on the 1st December would be allowed a discount of one-twelfth of  $2\frac{1}{2}$  per cent. Your Committee consider that this is totally absurd, and they believe that if a reasonable discount were allowed many persons would pay their tax earlier, and the Government would be much better off financially, as they would thus ensure the collection of the greater part of the tax sooner than is now the case.



## REOPENING OF AGREED ASSESSMENT.

(30) Under existing practice Assessments are often agreed between the taxpayer, or his representative, and the Surveyor, who has before him all the material required by him and necessary to enable him to make a proper assessment. It not infrequently happens that in a subsequent year, the agreed figures are reopened, either by the Surveyor who confirmed them or by his successor. The taxpayer is thus put to considerable trouble in proving what he has already proved to the satisfaction of a Surveyor. Your Committee consider that agreed assessments should not be reopened unless the Surveyor has actual knowledge of a mistake or good grounds for considering that in the previous returns, assessable income had been purposely suppressed.

Re-opening of  
Agreed  
Assessment.

## CLAIMS IN RESPECT OF EARNED INCOME.

(31) Under the Finance Act, 1907 (Section 19 [4]), it is enacted that the taxpayer who desires to be assessed at the reduced rate in respect of his earned income, must make a claim in respect of the same before the 30th September. Cases have occurred where owing to inadvertence or to absence claims have not been made, and the taxpayers have been assessed on their trade profits or salaries as if they were unearned. Your Committee consider that there should be no fixed date for making this claim, but that if any date be fixed it should be the date of payment of the tax. In any case, however, the taxpayer should be entitled to a refund of the amount overpaid, if he pays on his earned income as if it were unearned income, within the meaning of the law. Surveyors have all the material before them to enable them to judge the nature of income. In the view of your Committee earned income forms should be acknowledged by the Surveyors so as to protect the taxpayers, and the present limit of the amount of income on which the earned rate is allowed should be abolished, and all earned income treated alike.

Claims in respect  
of Earned  
Income.

## INCOME TAX COMMISSIONERS.

(32) The Commissioners of Income Tax as at present constituted fall into two classes, viz.:—Special Commissioners and General Commissioners. The Special Com-

Constitution of  
Commissioners.



missioners are officials paid by the Treasury. They are all well versed in Income Tax Law and accounts, and undertake journeys to all parts of the country to hear appeals of taxpayers, who do not desire to appear before the General Commissioners. The General Commissioners, who are appointed by the Land Tax Commissioners out of their own body, on the other hand, are unremunerated taxpayers residing in the same district as the assessed persons, whose appeals they hear. They are intended to be independent of the Board of Inland Revenue, but as they have only a limited, sometimes very limited, knowledge of Income Tax Law and Procedure and of Accounts, they must necessarily be more or less dependent upon the information and advice communicated to them by permanent officials. They cannot properly be said to be independent of the Income Tax officials. Your Committee believe that no taxpayer would venture to assert that the General Commissioners do not carry out their duties with every intention to be scrupulously impartial, but it is obvious that there are many reasonable objections to the hearing and deciding of appeals by them. It may happen that one or more of the General Commissioners is a competitor in trade with an appellant, or perhaps a clergyman or a small rent collector, and even if this is not the case the appellant may be either a personal friend of, or well known to one or more of the General Commissioners. There is a natural desire on the part of business men to keep their purely business affairs private, and this desire is naturally accentuated when the matter in question refers to their income. Furthermore, the position of the appellant is not improved by the fact that the decision of the General Commissioners, owing to their lack of expert knowledge of the law and accounts are often guided by the advice of their clerk, and the ex-parte statements of the Surveyors of Taxes, who, in connection with the appeal, occupy a position comparable with that of a respondent in an appeal to the High Courts of Justice. In view of these facts your Committee think it most desirable that the General Commissioners should be abolished, and that all appeals should be to the Special Commissioners. For this purpose it may be necessary to appoint a Board of Special Commissioners to hear and decide appeals in various Income Tax districts, and your Committee suggest that each Board should consist of four well qualified persons, *e.g.*, one lawyer, one accountant, one manufacturer and one merchant.

A good example of the want of knowledge of General Commissioners is the case of Guest, Keen, and Nettlefold,



Ltd. The Commissioners refused to allow a payment to a Trade Association as a charge against profits. The company appealed to the High Court, and Mr. Justice Bray allowed the appeal.

## APPEALS AGAINST INCOME TAX ASSESSMENTS.

(33) The manner in which appeals are at present heard against Income Tax assessments places the appellant at a considerable disadvantage. The general practice of the Commissioners is after hearing the evidence to exclude the appellants from the room whilst they are deliberating upon their decision, though the Surveyor of Taxes remains. Under the Taxes Management Act, 1880, Section 57 (7), it is provided as follows:—

Appeals against  
Assessments.

“At every and any appeal the Surveyor and Assessor may then and there attend, and . . .

“(c) Have full power and liberty to be present during the time of hearing such appeals and of the Commissioners determining the same.”

(34) In 1908 the Chancellor of the Exchequer, in reply to a question put to him by a member of the House of Commons, said that the practice was as stated above, but asserted that there were no grounds for any reflections upon the fairness of the servants of the Crown. It must not be forgotten, however, that the interests of the Crown on the one hand and the taxpayer on the other, are somewhat diverse. The duty of the Income Tax officials is to see that every pound on which Income Tax is payable is duly assessed, and the duty of the taxpayer is to see that he pays no greater sum than that for which he is legally liable. A slight consideration of the procedure at an appeal meeting will be sufficient to show that the taxpayer is placed in a position of disadvantage. The almost invariably courteous Commissioners, who by inclination lean, as a rule, rather towards the taxpayer than against him, in the first place call upon the appellant company, firm, or individual, for a statement of the grounds of his or their objections to the assessment. These having been stated by the principal secretary, or accountant, if a question of fact is in issue, or by counsel, or solicitor, if a legal point is in issue, the Commissioners call upon the Surveyor of Taxes or other Revenue Representative for a statement of his case. The



appellant or his representative may then again address the Commissioners if he so desires, and they think fit to hear him. It then only remains for the Commissioners to consider the facts and the law applicable to the case, and to formulate their decision. In ordinary legal cases this is done without the withdrawal of the appellant or the respondent, but in income tax procedure, the appellant is required to withdraw and the respondent is legally entitled to remain, presumably for the purpose of assisting the Commissioners to come to a decision.

Unfairness of  
Present System

(35) The situation thus created on appeals to General Commissioners may conveniently be expressed in the words of the late Mr. T. Hallett Fry, barrister-at-law, in an article which was published in "The Secretary," in September, 1908, as follows:—

"The Court enters upon the consideration of its decision in the absence of the appellant but in the presence of his opponent, the Surveyor of Taxes, a state of things which would not be tolerated in any other Court. But were it merely that the Surveyor must be present, there would be little to say. The undisputed and indisputable fact is that the Surveyor not only stays with the Commissioners, but carries his case further whilst he is so closeted, and in the *absence of the taxpayer* repeats and enforces his arguments, introduces new arguments and law, and clears all doubts from the minds of the Commissioners by his original and further statements, together with the aid of Income Tax statutes, decisions, and text books, and of his own, never inconsiderable, experience and practice in various districts, and of that of the Board of Inland Revenue itself."

"No one for one moment, attributes to the Surveyor of Taxes anything but the most proper motives. The Department has always distinguished itself by its fairness. But the statute requires the attendance of the Surveyor throughout the determination of the appeal, and the presence of the taxpayer is not required by the statute, nor is it permitted by the practice of the vast majority of districts. Hence the last word, so beloved by all lawyers, is with the Crown.

"The Commissioners, who are not trained Income Tax lawyers, but gentlemen residing in the neighbourhood, must find themselves deciding many times daily whilst they are sitting, difficult points as to which they have had no previous experience whatever. They must decide them in the presence of the able exponent of the Crown, who can put them right with a word, and who must of necessity thus put them on the road of his own honest way of thinking, but obviously not on that of the appellant, else he would not be contesting the case.



"There is no doubt that many a principal, many a secretary, many a counsel, solicitor, accountant, or agent, must have protested against this proceeding. But a mere protest before a few Commissioners is not all that is needed, although it is of great importance that such a protest should be made. It is necessary that the whole of the respective professions, with the substantial backing of traders in general, should combine to end an intolerable state of affairs, which causes the taxpayer to regard the appeal presently afforded to him as an unreality, and one not worth the trouble of making, unless the amount at stake is indeed considerable and his interest it is, therefore, to carry his cause subsequently to the High Court. But this matter of the High Court brings to mind the fact that only where there is a clear issue of law can such an appeal be made. If a question of fact has been decided, the last word has been said so soon as the Commissioners have given their decision.

"Illustrative of the matter herein referred to, a few examples will be cited in general and brief language:—

"Example 1.—Appellant requested to retire. Objected. Counsel stated the taxpayer's grievance. Commissioners again asked taxpayer to retire. Counsel then asked (Commissioners supporting) that Surveyor be relegated to more distant part of the room, so that the latter might not hear discussions. Surveyor finally refused altogether, as contrary to spirit of the section. As a result—Surveyor remained, taxpayer withdrew, to the manifest pecuniary disadvantage of the latter.

"Example 2.—Circumstances similar. Surveyor asked not to listen to or take part in any discussion there might be. Surveyor at length stated apparently, as a concession, that 'although he must retain his right to repeat and support his original arguments when the Commissioners were determining, he would *advance no new arguments*.

"Example 3.—Assessment delivered in name of one partner instead of in that of name of firm, consisting of two partners. Chairman of Commissioners stated, when appellant and counsel in Court, 'This is evidently a mistake,' and Surveyor of Taxes acquiesced. In absence of appellant and his counsel, and after deliberations of Commissioners, their clerk, and the Surveyor, the taxpayer was informed that it been found as a fact that no partnership existed. The result of this finding was that no abatements were allowed the taxpayers, although had the fact of the partnership been found two abatements would have been obtained.

"Example 4.—After long discussion between Surveyor, standing on his rights, and counsel and Commissioners, standing on equity, both Surveyor and counsel retired, leaving the Commissioners unfettered. Surveyor and counsel were both satisfied, although the former 'had his instructions,' and was bound to act up to them.



"Of these cases the most satisfactory result was obtained in the last, when the representative of the Crown was not present (perhaps an unique case) to press further his suit during the absence of the appellant and the determination of the appeal. The result was an equitable one. It would not have been so satisfactory had the Surveyor been able to raise (unanswered) quibbles, both legal and customary, whilst the Commissioners were deliberating.

"Appellants and, above all, secretaries, in whose hands are entrusted the affairs financial of limited companies (the most important of trading concerns), must see that they obtain equal treatment, and that the interests they have to conserve are not damaged by the existence of one-sided practices tending to destroy the value of the appeal.

"Combination may effect much, separate action can effect little."

Abolition of  
General  
Commissioners.

(36) Your Committee consider that the present state of things should be remedied with the least possible delay, and that the first step should be the abolition of the General Commissioners.

## SURVEYORS OF TAXES.

Surveyors of  
Taxes.

(37) As a general rule the Surveyors of Taxes are competent officials who evince a desire to be fair and equitable in carrying out the duties imposed upon them by the Income Tax Acts, but cases do occur where Surveyors in the exercise of their duties and, owing to their desire to protect the Revenue, or their ignorance of the law and accounts, are not always fair to the taxpayer. This is more likely to be the case when the Commissioners are weak, and the actions of the Surveyor are not subjected to close and expert consideration. This grievance would be removed by the abolition of General Commissioners in favour of the Special Commissioners, and care being taken that fully trained men shall always be appointed Surveyors.

## ASSESSORS.

Assessors of  
Taxes.

(38) The appointment as Assessors of small men of no position, such as local village schoolmasters, should, in the opinion of your Committee, be done away with. It is hardly fair that men of means and position should be compelled to lay before such local Assessors particulars of



their total income, and then to run the risk of information leaking out which ought to be kept strictly private. It is not therefore to be wondered at that taxpayers, under the conditions, should object. Your Committee think that persons appointed to act as Assessors should give their whole time to the service of the Inland Revenue Department, and they would then be subject to all the reasonable rules of the Civil Service regarding secrecy.

## CONCLUSIONS AND RECOMMENDATIONS.

(39) Your Committee's conclusions and recommendations may be summarised as follows :—

Conclusions and  
Recom-  
mendations.

(a) That the present powers of the Income Tax Authorities to enforce the making of returns are adequate.

(b) That in order to encourage the making of accurate returns, and the holding of a sufficient tax in reserve, in case of war, it is desirable that in time of peace the amount of the Income Tax should be maintained at a much lower level than that which now obtains.

(c) That the Forms of Return issued to Income Tax payers should be simplified.

(d) That separate returns only should be required from the members of a partnership firm, and each partner be assessed separately.

(e) That the production of balance sheets should not be required in addition to trading accounts.

(f) The Surveyor of Taxes should be required to accept a trading and profit and loss account certified by an accountant of repute, subject to the power being reserved to him to raise queries only on points of method of treatment of certain items, and on the question of the allowances for depreciation, &c.

(g) That full allowances should be made for the depreciation of plant, machinery, and all other wasting assets, and that this allowance should be based upon the original capital value, and not upon the diminishing value as at present.



(*h*) That the Inland Revenue Authorities should be required each year to inform Income Tax payers on the various forms of assessment as to allowances to be made in respect of the obsolescence of machinery and plant in accordance with the letter addressed to the Association of Chambers of Commerce by the Treasury on the 28th May, 1897.

(*i*) That Income Tax should be levied only on the actual income of the tax payer and not on a figure, arbitrarily ascertained as at present, which is usually larger

(*j*) That the three years average system should be abolished, the tax levied on the profits of the preceding year, and previous losses deducted.

(*k*) That the profits made by Co-operative Societies should be assessed for Income Tax in the same way as the profits of other trading concerns.

(*l*) That a reasonable discount should be allowed for the early payment of Income Tax.

(*m*) That agreed Assessments should not be re-opened unless the surveyor has actual knowledge of a mistake or good grounds for believing that in previous returns assessable income has been purposely suppressed or there has afterwards been found by the taxpayer or surveyor an obvious error in the figures.

(*n*) That no arbitrary date should be fixed for making claims in respect of earned income, but that if any date be fixed it should be not earlier than the due date for the payment of the tax.

(*o*) That the limit on earned income, which entitles it to lower rate of tax, should be abolished

(*p*) That acknowledgement should be sent by Surveyors for all returns claiming reduction of rate on earned income.

(*q*) That the office of General and Additional Commissioners of Income Tax should be abolished, and that all their duties in future be performed by the Special Commissioners, with the assistance of the Surveyor of taxes.



(r) That in the case of appeals, the Surveyor should not have the right to be present whilst the Commissioners are deliberating upon their decision unless the appellants also have the same right.

(s) That only fully qualified men should be appointed as Surveyors of Taxes.

(t) That only trained men should be appointed as Assessors, and that they should give their whole time to the duties of their office.

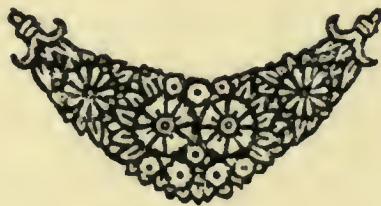
(u) That in order to assist the Inland Revenue Authorities in regard to the preparation of the forms of Income Tax Return and other matters incidental thereto, one or more Advisory Committees should be appointed, to consist of representatives of the Treasury and Chambers of Commerce, and a representative of the Incorporated Law Society, of the Institute of Chartered Accountants, of the Incorporated Society of Accountants, and of the Chartered Institute of Secretaries.

H. LAKIN-SMITH,

*Birmingham.*

*Chairman.*

*October, 1910.*



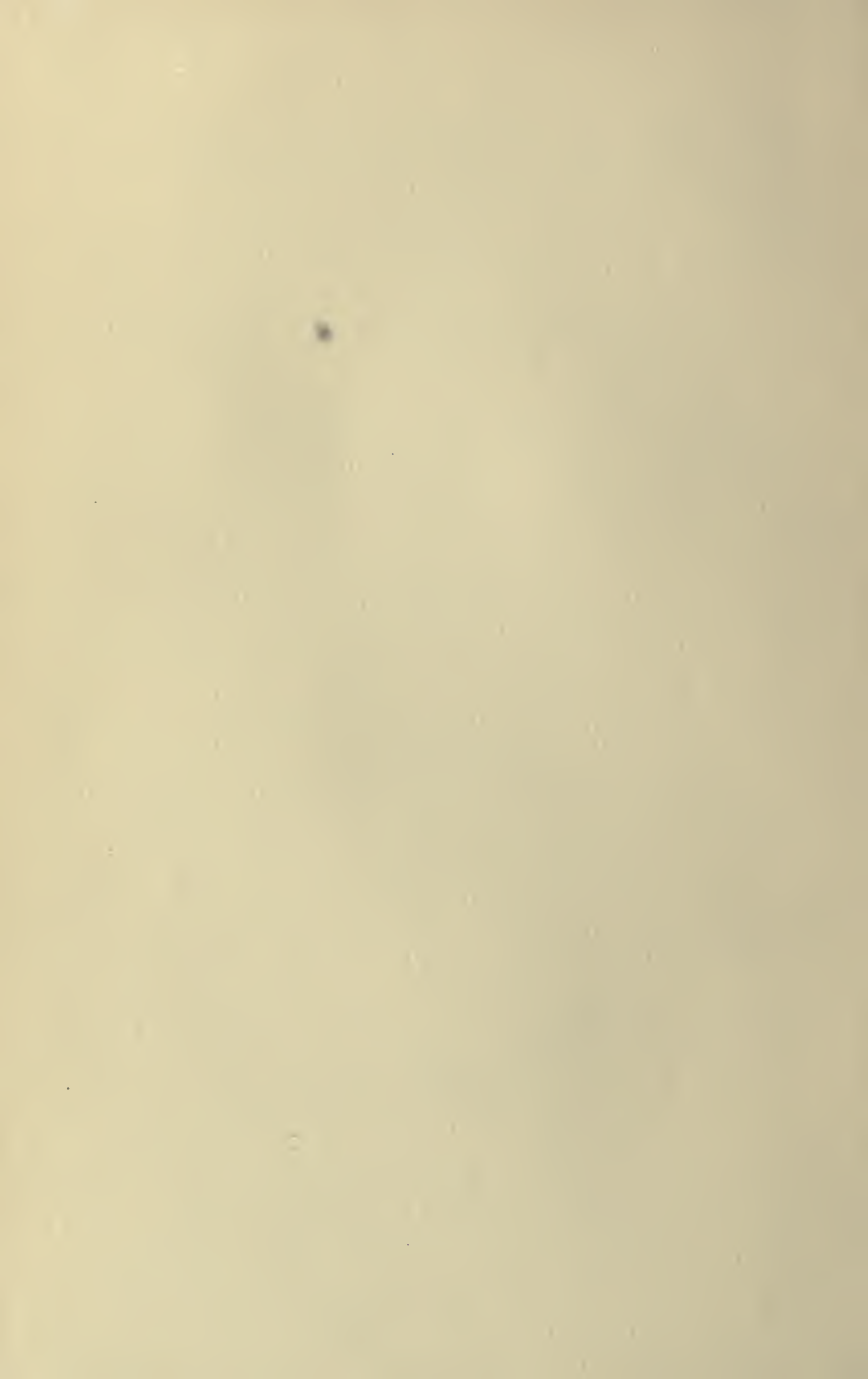


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